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INFO RUEHWH/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS
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RHEHNSC/NSC WASHDC
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RUCPDOC/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY

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SENSITIVE
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ENERGY FOR CDAY AND ALOCKWOOD
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR RJARPE
NSC FOR RKING
USDOC FOR 4332 MAC/ITA/WH/JLAO

E.O. 12958: N/A
TAGS: ECON EFIN EPET VE
SUBJECT: PDVSA ANNOUNCES LONG-AWAITED BOND ISSUANCE

REF: A. CARACAS 748
¶B. CARACAS 368
¶C. 2008 CARACAS 930
¶D. CARACAS 564

¶1. (U) After three months of rumors concerning various plans for emitting bonds, PDVSA announced on June 25 terms for a USD 3 billion issuance. The bond, called Petrobono 2011, is a dollar-denominated zero coupon bond maturing on July 8, ¶2011. It can be purchased in bolivars (Bs) by Venezuelan residents and companies through an auction, with bids due July 1 and the results (and adjudication methodology) to be announced July 2. The bond is not registered outside of Venezuela, and, according to its terms ("convocatoria"), can only be traded in the local secondary market in bolivars. PDVSA's website states bond proceeds will be used for "local obligations"; the convocatoria says they will be used for "investments." The prospectus states that the bond will not form part of the position in foreign currency of financial entities.

Comment

¶2. (SBU) Before the June 25 announcement, local analysts speculated the rumored emission might have the dual purpose of injecting dollars into the parallel foreign exchange market and allowing PDVSA to raise funds to pay local debts to suppliers. Because these bonds cannot be traded on the international secondary market, they do not represent an immediate source of dollars and are unlikely to have a major impact on the parallel market. Whether PDVSA uses the funds to pay local debts to suppliers remains to be seen. According to PDVSA's audited 2008 financial statements, accounts payable to providers closed 2008 at USD 7.5 billion, with media sources speculating the figure may currently be closer to USD 13 billion. Were PDVSA to use the bonds' proceeds for this purpose, it could pay off a significant portion of this debt. (Note: The bonds will likely sell for more than their face value when comparing the bolivar proceeds at the official exchange rate to the face value in dollars. End note.)

¶3. (SBU) More than anything, this issuance represents further government indebtedness on the local market. The central government has been implementing an aggressive plan to issue up to Bs 34 billion (USD 15.8 billion at the

official exchange rate) in local debt in 2009 (ref B). With this issuance, PDVSA is getting into the act, the difference being these bonds will be dollar-denominated. It will be quite interesting to see the local market's reaction. On the one hand, there is an ever-growing appetite for dollars, and the provision that the bond will not form part of the position in foreign currency increases the attractiveness to banks (ref C). On the other hand, given PDVSA's recent track record with paying its debts to suppliers (ref D), investors may demand a high risk premium for PDVSA debt, especially as there are no international protections. End comment.
CAULFIELD